CARTLIDGE MORLAND
INDIVIDUAL WEALTH MANAGEMENT

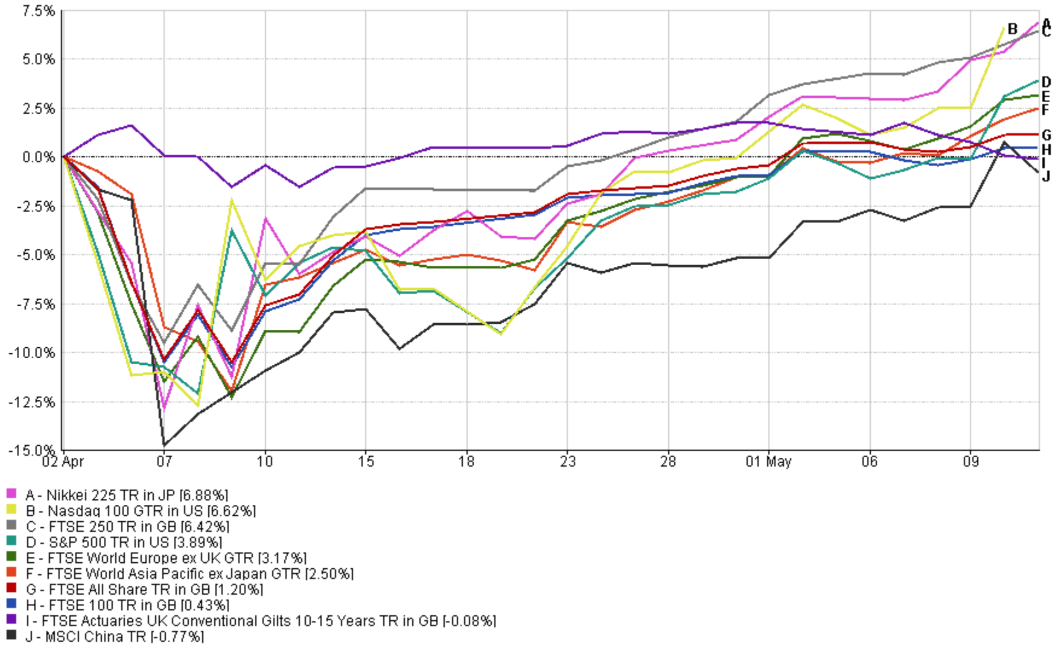
INVESTMENT COMMENTARY

14 MAY 2025

OVERVIEW

If you had not looked at equity market returns since 2 April 2025, you might think that many investment markets have performed quite well. In fact investors in most markets have experienced the doubtful thrills of a rollercoaster – as illustrated by the chart below.

INVESTMENT MARKET LOCAL CURRENCY RETURNS FROM 2 APRIL TO 13 MAY 2025



02/04/2025 - 13/05/2025 Data from FE fundinfo2025

Equity markets experienced sharp falls in value and high volatility following President Trump's 'Liberation Day', when he announced significant increases in trade tariffs on all global trading partners leading to the uncertainties and loss of confidence in global equities reported in our commentary last month. These tariffs were intended to be based on the level of trade deficit that the US had with each country with the minimum tariff level set at 10%. The US and China then increased trade tariffs on each other's goods further with rates in excess of 100% in a 'tit for tat' war of rhetoric. The tariff on cars was set at 25% globally.

We always felt President Trump wished to deliver a sharp shock to major US trade partners and to do deals afterwards. The speed with which some have already been concluded has not surprised us. Irrespective of the President's actual intentions (or tactics?), the deterioration in the US bond market is likely to have prompted urgent reassessment of US tariff policy. US bond yields are key to economic policy as they dictate how much the US Government will have to pay to service its financial deficit. Following the tariff announcement, bond yields rose and confidence was further damaged by President Trump threatening to fire Jay Powell, Chair of the US Federal Reserve (Fed), which President Trump quickly withdrew.

Investment sentiment started to improve as President Trump rowed back on these extraordinarily high tariff levels. A week after imposing the new tariff levels, he announced that they would be paused for 90 days although the 10% tariff on nearly all countries would remain. He also proceeded to increase the tariff further on Chinese goods. Shortly afterwards, certain products containing semi-conductors were exempted from some tariffs including smartphones and consumer electronics. (As predicted in our last Investment Commentary the President had no desire to destroy Apple nor other successful US giants that have outsourced much of their production to China. Apple reciprocated with a coinciding announcement of major new investment in US manufacturing).

The 90 day suspension of the higher tariff levels has led to countries engaging with the US to strike improved trading terms. The first trade deal to be announced was with the UK, with the car tariff reduced to 10% on the first 100000 cars imported by the US, as well as aluminium and steel having tariffs removed. The UK agreed to import more US agricultural and energy products. Nevertheless, the US tariffs are still higher than they were prior to 2 April 2025. Whilst the first deal led to more positive sentiment, it was movement on the US/China trading relationship which really led to steep rises in equity markets. The sharp reductions in tariffs by the US and China on each other's products – albeit for 90 days initially whilst talks continue – were far greater and more quickly agreed that anticipated.

Whilst there is still uncertainty due to the 90 day limit on these reductions, it would seem there is willingness on both sides to resolve differences and reset their trading relationship. A tariff war between the largest economies in the world could only inflict severe damage on both.

The US had already seen its GDP (Gross Domestic Product) contract by 0.3% pa over the first quarter of 2025, as imports soared ahead of 'Liberation Day'. Economic indicators point to further weakness in the manufacturing sector. The services sector seems more resilient as it continues to expand but at a slower rate. The worry is that inflation starts to tick up whilst growth stagnates and unemployment increases. The Fed maintained its main interest rate at a range of 4.25-4.50% at its latest meeting. Whilst economic uncertainty persists, it has adopted a 'wait and see' approach. It is now likely that there will be two further 0.25% interest rate cuts this year, as the Fed tries to loosen monetary policy whilst keeping inflation in check.

The Chinese authorities had taken action to cushion the likely blow of US trade tariffs on their economy which is targeted to achieve 5% growth this year. Around 15% of all Chinese exports went to the US last year. China has already seen a slowing in its manufacturing sector with work forces furloughed and production reduced. The People's Bank of China (PBOC) lowered a range of interest rates, as well as reducing banks' reserve requirements as it looked to increase liquidity in the banking system.

The UK equity market has recovered from losses experienced through the recent tariff turmoil with a trade agreement made with the US. US/UK trade was roughly balanced so an agreement was more straightforward, although discussions including the future of the Digital Services Tax and pharmaceutical goods are ongoing. The trade deal with India saw tariffs lowered on both sides with some full reductions introduced gradually. The UK economy is still growing glacially. The economy expanded 0.1% in the final quarter of 2024 with a rise of 0.6% in the three months to February 2025. The International Monetary Fund has reduced its growth estimates for the UK to 1.1% growth this year from its previous estimate of 1.6%. Higher employment costs as a result of National Insurance and minimum wage hikes, have forced companies to control employment costs by reducing staff numbers. Against this background of lacklustre growth, the Monetary Policy Committee (MPC) of the Bank of England (BoE) cut Bank Rate by 0.25% to 4.25%, with the Bank taking a “gradual and careful” approach. More interest rate cuts are expected if inflation continues to slow. Monthly wage growth, a significant driver of inflation, has eased to some extent but still remains elevated at 5.6% pa.

The European Central Bank (ECB) cut its main interest rates by 0.25% at its April meeting with the Deposit Rate now at 2.25% - the seventh rate cut from the most recent high in 2023. Increased US tariffs have led to uncertainty about economic growth although GDP expanded 0.4% in the first quarter of 2025. Inflation remains at 2.2% pa with a fall in energy prices helping to keep inflation quite close to the ECB’s 2% target. The key German economy has seen some improvement as industrial production rose 3% in March. Manufacturers had increased production ahead of the US trade tariff announcement.

Japan had been one of the countries expected to reach a trade deal with the US first. However, negotiations are still ongoing. The Japanese economy continues to face some headwinds from the uncertainty arising from the US trade policy. The Bank of Japan’s (BoJ) plan to tighten monetary policy has been delayed due to the possible impact of tariffs. The BoJ is unsure of the risk posed to economic activity.

OUR VIEW

Compiled by Angela Cooper, MD - Investment Services.

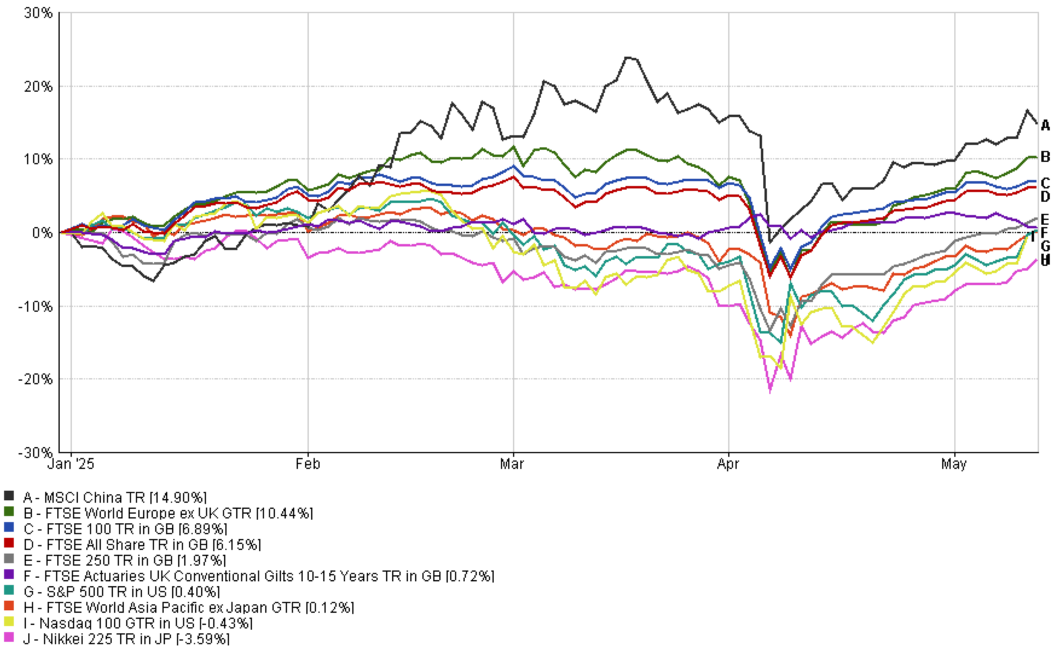
Angela runs Cartlidge Morland's Investment Management team, with over 30 years' experience in investment research working for investment companies, leading UK national IFAs and wealth managers. Angela graduated from the London School of Economics and is a Chartered Insurance Practitioner.

Whilst the positive moves on trade tariffs are welcome, uncertainly still remains due to the current temporary nature of the reduction in tariff levels. However, the US and China appear to want to trade fairly, so hopefully their ongoing trading relationship will be established on a firmer footing. The alacrity of the first few trade agreements does bode well for deals with other US trading partners.

Whilst markets have recovered over the past six weeks, the year to date returns reflect relative weakness in the US equity market. As the 'Trump bump' following the Presidential election in November 2024 petered out and the DeepSeek developments took their toll on some of the mega tech companies, investors looked for opportunities elsewhere including Europe and UK equities which offered good value. Defence-related companies have performed well as the UK and European countries look to increase their defence spending.

The global economy does not appear to be heading for recession – which is good news for investors. The central bankers and national governments would all prefer stronger levels of economic growth – not least to ease debt servicing costs and the challenges of meeting government spending commitments. The UK is far from alone in this and not in the worst position either, on the basis of international comparisons.

YEAR TO DATE INVESTMENT MARKET LOCAL CURRENCY RETURNS TO 13 MAY 2025



31/12/2024 - 13/05/2025 Data from FE fundinfo2025

Inflation in UK/US had proved stickier than anticipated a couple of years ago resulting in reductions in interest rates being slower than expected. The latter has undoubtedly been a major factor constraining growth and affecting sentiment. That said, interest rate cuts appear likely to continue on both sides of the pond, underpinning economic growth.

One critical difference between US and UK is that UK consumers are not so indebted and the UK has enjoyed an exceptionally high savings ratio since the 'COVID' period, indicating caution in borrowing and spending. Some of this caution may now dissipate as interest rates fall so there is scope for the UK consumer to rescue the domestic economy. Businesses need such support to cope with the increased costs the government has unhelpfully imposed on them.

European inflation has fallen faster than in US/UK and interest rates there are lower. The ECB expected this to stimulate the European economy but the benefit has been overshadowed by EU/US trade tensions. The EU, China and the US eye each other warily in all areas of geo-politics. The rhetoric from the EU indicates that it is prepared to wait for a better trade deal than the UK's. However, time is passing quickly and the EU will want to avoid a doubling of tariffs in July when the current tariff levels revert to the original 'Liberation Day' rates if no progress is made on EU/US trade. The EU will finally agree to trade deal with the US as the $1trn+ trading relationship with its largest trading partner is at stake.

Global investors may remain cautiously optimistic where fairly valued assets are concerned and there are swathes available globally. Over-valued assets are likely to be more exposed amidst current conditions. Bond markets ought to remain supported by falling interest rates and generally strong corporate balance sheets in the UK. Amidst recent turmoil the gilts market held up well containing 'balanced' portfolio losses – as we would expect. The UK government is demonstrating some resolve in terms of placing national finances on an even keel – tax increases and curbs in spending tend to be well received by credit markets. Indebted countries need growth though and there is always a danger of national fiscal policy stifling any economy.

If you have any queries please do not hesitate to contact your Cartlidge Morland consultant.

CARTLIDGE MORLAND

80 Coleman Street London EC2R 5BJ **t:** +44 (0)20 7709 5560 **e:** enquiries@cartlidgemorland.com **www.cartlidgemorland.com**